
United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

FORD MOTOR COMPANY, a Corporation
PLAINTIFF AND APPELLANT

vs.

BENJAMIN E. BOONE, Inc., a Corporation,
BENJAMIN E. BOONE
and **BENJAMIN E. BOONE, Inc., a Corporation,**
D. R. BOONE and NORA CARLYLE,
a co-partnership, doing business as
BENJAMIN E. BOONE & CO.
DEFENDANTS AND APPELLEES

Supplemental Brief of Plaintiff and Appellant

PLATT & PLATT
McDOUGAL & McDOUGAL,
Attorneys for Plaintiff and Appellant.

ALFRED LUCKING
L. B. ROBERTSON
HARRISON G. PLATT,
of Counsel.

Filed

MAY 14 1915

F. D. Monckton
Clerk

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FORD MOTOR COMPANY, a corporation,
Plaintiff and Appellant,

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BOONE, INC., a corporation,

D. R. BOONE, and NORA CARLYLE, a co-part-
nership, doing business as BENJAMIN E.
BOONE & CO.,

Defendants and Appellees.

Supplemental Brief of Plaintiff and Appellant

Since the writing of the plaintiff's brief in this case and its filing under the rules, reports of two decisions have become available in cases recently decided by the Supreme Court of the United States, which it is proper and necessary to consider as bearing upon the case at bar.

Motion Picture Co. v. Universal Film Co.,
37 Sup. Ct. R. p. —.

Straus, et al., v. Victor Talking Machine Co.,
37 Sup. Ct. R. p. —.

both decided April 9th, 1917.

THOSE CASES ARE NOT CONTROLLING OF THE PRESENT CASE.

I.

It is impossible to read these two cases together without drawing the conclusion that the Court was taking the utmost pains to make it clear that the Court was passing only upon the validity and efficacy of the notice attached to the patented article to bind the general public in the use of the article after it has been fully paid for—most of the members of which public would never see or read the notice, as the Court points out.

IN THE MOTION PICTURE CASE, the majority opinion in nine different places emphasizes that that question is whether *by notice* or *by mere notice* the patentee may impose upon the public the restrictions as to use of the patented machine with unpatented supplies.

The Dick case was overruled.

The right of the manufacturer to fix the price of his article to the public by contract with the jobber was not involved or discussed.

The great hardship and injustice of the monopoly

proposed by the plaintiff's plan in the Motion Picture case was dwelt upon by the Court and it impelled the Court to use the following extraordinary language :

"The perfect instrument of favoritism and oppression which such a system of doing business, if valid, would put into the control of the owner of such a patent would make Courts astute if need be to defeat its operation. If these restrictions were sustained plainly plaintiff might for its own profit or that of its favorites, by the obviously simple expedient of varying its royalty charge, ruin anyone unfortunate enough to be dependent upon its confessedly important improvements for the doing of business."

After giving an outline of the case, Mr. Justice Clarke, who wrote the majority opinion, says (*italics ours*) :

"This state of facts presents two questions for decision: First, may a patentee license another to manufacture and sell a patented machine and by *a mere notice* attached to it, limit its use by the purchaser or his lessee, the films which are not patented. Second, may the assignee of a patent which has licensed another to make and sell the machine, by *a mere notice* attached to such machine, limit the use of it by the purchaser or his lessee to terms not stated

in the notice, but which are to be fixed after sale by such assignee in its discretion.

* * * The inquiry is as to the extent to which a patentee or his assignee is authorized by our patent laws to prescribe *by notice* attached to a patented machine conditions of its use and the supplies which must be used in the operation of it, under pain of infringement of the patent.

"The statutes relating to patents do not provide for any such notice * * * neither one (R. S. 4900, 4901) contemplates the use of such a *license notice* as we have here and whatever validity it has must be derived from the general and not from the patent law.

"The extent to which the use of a patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and a purchaser or licensee is a question outside the patent law and with it we are not here concerned." Citing 157 U. S. 659.

Clearly, the Motion Picture case has no direct bearing upon the questions in the case at bar.

IN THE STRAUS-VICTOR CASE, the Victor Talking Machine Company gave contracts called licenses, whereby for a fixed sum paid in advance, the licensee was given possession and use of the article during the life of the patent, at the end of which time the title passed to the licensee without

further payment, if he had complied with the conditions. The Victor Company brought suit for injunction against Straus to enjoin the defendant from "selling the machines which they had acquired, from other violations of plaintiff's rights under its patents, and for damages."

The Court in stating the case uses and throws into prominence by capitals ten different times the words, "*License Notice*," under which plaintiff sought to enjoin defendant, and then proceeds to state the issue as follows:

"The abstract of bill which we have given makes it plain; that whatever rights the plaintiff has against the defendant must be derived from the *LICENSE NOTICE* attached to each machine, for no contract rights existed between them, the defendants being only members of the unlicensed general public; and that the sole act of infringement charged against the defendants is that they exceeded the terms of license notice by obtaining machines from the plaintiff's wholesale or retail agents and by selling them at less than the price fixed by the plaintiff. * * *

"Is it the fact, as is claimed, that this *LICENSE NOTICE* of the plaintiff is a means or agency designed in candor and good faith to enable the plaintiff to make only that full, reasonable and exclusive use of its invention which is contemplated by the patent law, or is it a disguised attempt to control the prices of its

machines after they have been sold and paid for. * * *

“While as if looking to the future, the notice, in terms, imposes various restrictions as to title and as to the use of the machines by plaintiff’s agents and by the ‘unlicensed members of the public,’ for itself it required * * * that all it asks or expects at any time to receive for each machine must be paid in full before it parts with possession of it. * * *

“This system, elaborate to the extent of confusion, fails utterly to provide for entering any evidence of a qualified title in any public office or in any public record and no requirement is found in it for reporting by users or licensees, who may remove from one place to another and take a machine with them. If the plaintiff intended to enforce the rights asserted in the notice; if the system were really a genuine provision designed to protect through many years to come the restricted right to use and the seemingly qualified title which it purports to grant to dealers and to the public, from being exceeded or departed from. * * *

“If it were a reasonably guarded plan, really intended to keep the plaintiff in touch with each of its machines until the expiration of the patent of latest date, for the purpose of insisting upon its being used in the manner provided for in the *LICENSE NOTICE*, the plaintiff’s prompt and sufficient remedy for such an inva-

sion of its right as is claimed in this case would be found in its sales department, or rather in its license department, and not in the courts.

* * * The scheme of distribution is not a system designed to secure to the plaintiff and public the reasonable use of its machines within the grant of the patent laws, but is in substance a mere price fixing enterprise which, if given effect, would work great and widespread injustice to innocent purchasers, for it must be recognized that not one purchaser in many would read such a notice. * * * "

The Court makes it plain that it passes only upon the effectiveness and validity of the *license notice*. It finds that the plan is not a genuine one for the protection of the plaintiff's interests, but a disguised attempt to control the prices to the public after it has once been paid in full.

It will be recalled that in the case at bar plaintiff seeks to have defendants enjoined from doing certain things which unlawfully and fraudulently interfere with plaintiff's business. It is charged and admitted that the defendants have fraudulently and unlawfully, for the purpose of misleading the public, copied and made use of the plaintiff's trade marks, names, and other emblems, and falsely and fraudulently represented that they were plaintiff's agents. These, and other wrongful acts are admitted, and to that portion of the plaintiff's grounds of complaint the two decisions in question can have

no possible application. That portion of plaintiff's complaint to which it will be claimed that these two recent cases have application, is that where in is set out a contract between plaintiff and its agents pursuant to which such agents sell for plaintiff plaintiff's manufactured product, and whereby it is charged that the defendants have fraudulently and wrongfully persuaded agents of plaintiff thus bound to plaintiff by contract relations, to violate such contract. Both the acts and wrongful motive therefor are admitted by the defendants, and it is admitted that they were done "with the deliberately fraudulent intent and purpose of defrauding the plaintiff and its duly authorized agents, and of misleading the public and prospective purchasers of Ford automobiles."

So far as these decisions are concerned, therefore, we have the case of a contract duly entered into between the plaintiff and its agents, with which contract the defendants have wrongfully interfered. It may be attempted to justify, or rather excuse, that admittedly fraudulent interference by contending that the contract between the plaintiff and its agents was a contract which the parties thereto could not lawfully enter into. We endeavored in our principal brief to point out the distinction to be found in all the decisions between a case like this where the control exercised is by direct contract enforceable between the parties thereto, and the attempt to control by *a mere notice* attached to the article to be sold.

There have been a number of cases where it has been sought in a suit charging infringement of patent rights, to enforce the right to control after a sale by a mere notice attached to the article, and the courts, notably in the Sanatogen case, have held that a violation of the notice does not constitute infringement. We have been at some pains in our principal brief to point out this distinction.

It will be seen that the issues as stated by the Court in the Motion Picture and Victor cases relate only to the question of the right to control the future of a patented article *by notice* attached to the machine. The cases do not in any respect discuss or consider the right of a patentee to appoint agents and control the acts of those agents by any form of contract or any conditions which the principal and agent may agree upon. There is, however, clearly drawn a distinction between the right to control the use of the machine itself and the attempt to control the materials to be used with the machine, which is pointed out by the Court in this language:

“The difference is clear and vital between the exclusive right to use the machine which the law gives to the inventor and the right to use it exclusively with prescribed materials to which such a license notice as we have here seeks to restrict it. The restriction of the law relates to the useful and novel features of the machine which are described in the claims of the patent; they have nothing to do with the materials used

in the operation of the machine; while the notice restrictions have nothing to do with the invention which is patented but relate wholly to the materials to be used with it. Both in form and in substance the notice attempts a restriction upon the use of the supplies only and it cannot with any regard to propriety in the use of language be termed a restriction upon the use of the machine itself."

We again call attention to the fact that in the case at bar there has been no attempt to control *by notice* the future disposition of the patented article or the material to be used with it. We have only before us a contract between the plaintiff and its agents relating to the patented article itself, and nothing more, with which contract the defendants have admittedly wrongfully interfered. As the Court said in the case under consideration, "this construction gives to the inventor the exclusive use of just what his inventive genius has discovered." In the Motion Picture Patents case the Court found it necessary to overrule its prior decision in the case of *Henry v. Dick Company*, for the reason that that decision had allowed the patentee *by notice* to prescribe the material to be used with the patented article, and had thus, as the Court believed in the subsequent opinion, created a right not founded in the patent law.

In our principal brief we discussed the Dick case at considerable length for the purpose of pointing

out the distinction between a right founded on a direct contract, and one asserted through a *notice* attached to the patented article, and we expressly disclaimed any right based *on notice*, and the Dick case was only valuable to us insofar as it contained a discussion and recognition of the distinction.

Both the Motion Picture and Victor cases were suits for infringement against members of the general public, who had acquired the patented articles with no restriction upon their rights thereto, other than that attempted to be created by the *license notice* attached to the machine. There was some general language used which at first blush might seem to bear adversely upon the position of the Ford Motor Company, but the same is quickly seen to have no application when we consider the difference in the facts and the position of the parties before the Court. The Ford Motor Company is not before the Court seeking to control the action of parties who have purchased from its agents where those agents have violated their duty to their principal, but only to restrain outside interference with the relations existing by contract between principal and agent. The Ford Motor Company does not sell its machines to dealers and then attempt to control the conduct of those dealers, and does not sell except to the general public, and it relies upon the relation of principal and agent for the protection of its market and the public, and the security of the service to the public, hereinafter discussed. It does not at-

tempt to project any control over the machine after sale *by notice* affixed to the machine, as in the Motion Picture Patents case and the Victor Talking Machine case. It, therefore, does not become necessary for the Ford Motor Company to resort to patent infringement suits, or other means, to enforce the provisions of a license notice. It only asks of the Court that admittedly fraudulent and wrongful interference with its trade name, its trade mark, and its contractual relations with its agents be not interfered with, and that such interference be enjoined by a court of equity.

If third parties wrongfully, maliciously and designedly interfere in the relations between principal and its agent we invoke what this Court has declared to be

“the established doctrine that an actionable wrong is committed by one who maliciously interferes with a contract between two parties, and induces one of them to break that contract to the injury of the other, and that in the absence of an adequate remedy at law equitable relief will be granted.”

If an agent of the Ford Motor Company without such outside interference and solicitation should violate its contract the Ford Company would know how to protect itself by dispensing with the services of that agent, and replacing him with one more reliable. It is a reasonable presumption that the

agents would have continued satisfactory and faithful representatives had they not been over-persuaded by the defendants to violate their contracts, and we are none the less entitled to have interference enjoined though we might have temporarily settled the difficulty by discharging the agents, leaving the defendants free with their malicious attempts to corrupt the successor of the agents, or any other agent to whom they might have access.

The whole purport of the decisions in the Victor case and the Motion Picture case was to discuss the *license notice*, and its failure as a means to project the owner's control beyond a sale, and the Court said in conclusion as perhaps a final reason :

“For it must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number if he did read it could understand its involved and intricate phraseology, which bears many evidences of being framed to conceal rather than to make clear its real meaning and purpose.”

We submit that a consideration of these cases supports the distinction which we have so carefully endeavored to point out between the attempt to project control over the future use and disposition of a patented article by a *mere notice* attached thereto and the right on the part of the manufacturer to control the conduct of its sales agents bound to it by written contract. This case involves the inter-

pretation of a written contract and the right of the plaintiff to have defendants enjoined from an interference with its business, its trade marks, its advertising, its agents, in a manner admitted by the Motion to Dismiss to have been wrongful and fraudulent, and designed to wrong plaintiff and to deceive the public.

So far as the contract is concerned, there is nothing but the language by which it can be interpreted, and there is no evidence that it means anything different from what the language expresses, except what may be described as the "internal evidence." The District Court thought it saw in such internal evidence that which satisfied it that the relations between the Ford Motor Company and its agents were not those of principal and agent, but those of vendor and vendee. While we have urged, and still urge, that this contract cannot be interpreted to be other than a contract of agency without violating all the accepted canons of interpretation of contract, nevertheless it seems clear that even though it be assumed for the purpose of argument that the relationship was that of vendor and vendee, yet under the Bement case, and other cases cited in our brief, the Ford Motor Company was within its rights in attaching conditions by *contract* to the use which such vendee could make of the machine, the territory in which he could re-sell it, and the price at which he should sell. From such restriction no monopoly results or restraint of trade within the meaning of

the Sherman Law, as interpreted by the Supreme Court under the Rule of Reason, as discussed in our original brief, pages 121, 137.

It will thus be seen that the cases thus decided on April 9th by the Supreme Court do not control this case. On the contrary, they very carefully eliminate and set to one side the question presented here of the right of a manufacturer of a patented product to make valid and enforceable contracts with dealers providing in good faith for the protection of the plaintiff's interests, and as incident thereto, the right to agree with the dealer on stipulations as to price at which the patented article shall be sold in the first instance to the consuming public.

II.

The Supreme Court has never held that a manufacturer may not contract to receive some consideration for his patented article besides money; and has never found, as a matter of law, that parties may not stipulate for benefits to arise to the manufacturer as a distinct part of the consideration, although not in cash.

The right to impose conditions in sales of patented articles has been repeatedly affirmed by the Supreme Court, and in those cases the Court has declared that such conditions, when agreed to, are valid and must be observed.

Mitchell v. Hawley, 16 Wall. 544;
Bement Case, 186 U. S. 91.

The wide distinction between the force and effect given to a signed contract between competent parties as contrasted with a mere notice to the public has been pointed out and dwelt upon and enforced by many courts. (See our original brief, pages 100 to 111 inclusive.)

And in the Bement case the Court said:

“Any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.”

Bement Case, 186 U. S. p. 91.

The foregoing language has never been overruled or questioned, so far as we know.

In the Mitchell-Hawley case, which is a leading case, the Court said:

“And consequently a patentee when he has himself constructed a machine and sold it without any conditions or authorized another to construct and sell or construct and use and operate it without any conditions, and the consideration has been paid to him, the rule is well established that the patentee must be understood to have parted to that extent with all his

exclusive right. * * * Sales of the kind may be made by the patentee with or without conditions as in other cases, but where the sale is absolute and without any conditions the rule is well settled the purchaser may continue to use until worn out, etc."

It seems to be conceded on all sides that the manufacturer is entitled to receive his full price and that until he does receive his full price any conditions imposed in good faith for the purpose of securing this full price or full consideration are valid and enforceable. Whether enforceable by an infringement suit or by the usual remedies for breach of contract is unimportant in this case, because jurisdiction exists, in any event, on account of diversity of citizenship.

It is very evident that the Court in the Motion Picture case draws a distinction between the rights of the patentee which may be enforced by infringement suit and those which may be secured only by enforcing the contract between the parties.

We submit that no licensee or purchaser gets any right in a patented article except by his contract, whatever it may be. A wrongdoer who breaches the exclusive rights of the patentee may be held liable either to injunction or to damages for the infringement, but where the defendant claims his rights under the patentee, whether the suit be an infringement suit or otherwise, the rights of the parties

must be determined by construction of the contract existing between the parties.

As a matter of law, the patentee who vends his article upon conditions must have the same right to enforce the conditions which constitute the consideration for the article, whether those conditions relate to the payment of money or the delivery or performance of some other valuable thing. It certainly cannot be possible that the courts will hold where a purchaser agrees to pay a certain amount of money and also to perform some other act, which, together, constitute the consideration, such a purchaser may disregard and breach the stipulation as to the other thing, but must pay the money. The courts cannot recognize any such distinction as that.

If this is so, then a stipulation for certain acts and conduct on the part of the purchaser forming the consideration for the article or part of the consideration for the article are enforceable; and this is so, notwithstanding it may lead to a monopoly in that particular article if it be a patented article. On the other hand, if it relate to unpatented articles the stipulation to do or perform some act outside of the payment of money must be to do or perform an act not in violation of the Sherman Law.

It is agreed on all sides that the plaintiff is entitled to his full price.

We deny absolutely plaintiff has received its full

price when only the money has been paid and the other provisions of the consideration have not been performed. We deny, as a matter of fact, and we deny as a matter of law, that under such circumstances we have received our full consideration.

We have a right to make stipulations which will bring good reputation to our cars—to provide for *service* to the purchasers of our cars after they have been transferred, and to make that provision adequate and full. And any stipulation in good faith designed for this purpose is not only valid but is in the interest of the public in the highest sense.

The great value of *service*, the great importance of it to the plaintiff in the building up of its business and the tremendous importance of it to the automobile-owning public are recognized authoritatively and very strikingly pointed out by the Seventh Circuit Court of Appeals in the Prest-O-Lite case, in which Circuit Judge Baker, among other things, said:

“So it is apparent that something more is involved here than the question of rights flowing from the sale and purchase of original Prest-O-Lite gas packages. That something more is an incorporeal right that may best be called *service*, the right to serve and be served. * * *

“With such contingencies in mind appellee established a system of *service*. By an expenditure of over \$1,000,000 appellee enabled more

than 600,000 users of Prest-O-Lite to get a new supply in every city and town and nearly in every village in our land. For an original Prest-O-Lite gas package the customer paid \$25.00; for each subsequent package \$2.50 and the surrender of the empty steel bottle. * * * In all its advertisements appellee offered this *service* to its customers; and the record shows that they accepted the offer and expected to and did receive the *service* as part of what was paid for by the original \$25.00. * * *

“While *service* is not trade in articles of commerce * * * and the ultimate fact of importance is that in the automobile world Prest-O-Lite came to stand not only for the physical article, but also for the incorporeal right to serve and be served.”

Search Light Co. v. Prest-O-Lite Co.,
215 Fed. 695.

So, in this case it is proved to a demonstration that the great and important object of these contracts was to secure that constant, uniform and convenient *service*. This was the great purpose and object to be attained by the appointment of dealers each with limited territory and bound by contract to keep the parts on hand and to furnish this service to Ford owners. The fixing of the commission of fifteen per cent to the dealers (thereby fixing the price to the public) is an absolutely necessary incident to produce and bring about this service, this

maintenance of a garage and stock of parts. They could not be questioned by any honest man. Therefore, the main aim and object of these contracts is not only legitimate, not only laudable and praiseworthy, but in the highest degree beneficial to the public.

Each case must stand upon its own facts. The rule of reason must prevail, and unless the contracts are found as a matter of fact to be prejudicial to the public interest they will be upheld.

Unless this Court shall find, as a matter of fact, from *the record* that the stipulations and conditions in this contract were a mere subterfuge under which to set up the price-fixing scheme without the genuine purpose or object of furthering plaintiff's legitimate business, free from monopolistic purposes, then it seems to us the Court can not pronounce these contracts invalid.

Unless the Court finds as a matter of fact that the particular arrangement in question is prejudicial to the public interest, then under the rule of reason lately adopted by the Supreme Court construing the Sherman Act, it cannot be pronounced invalid.

What object can the plaintiff have in fixing the profit going to the dealer unreasonably high? Its one great object is to increase the sales of its own article, and this object would be defeated if it place

the price unreasonably high, because the public will not buy it; and if he have temporary success, such price invites hosts of competitors to enter the field.

We insist upon the absolute morality of the rule of uniform prices upon a single article of production, where there is abundant competition in the same line. We deny any public benefit to be derived from compelling price cutting in a single article of a single manufacturer where large numbers of others are engaged in the same business, as in the automobile business.

We beg to emphasize to the Court the tremendous and vital importance in automobile manufacturing of the right to make contracts to provide for prompt and efficient *service* to the owners of automobiles. The owners of the automobiles are not experts, they are operating an intricate and delicate machine. A slight flaw or misadjustment results in the destruction of the utility of the car for the time being. It is of the highest importance, not only to the plaintiff and all automobile makers, but to the general public and drivers of automobiles everywhere, that good service should be provided for in all places and as conveniently as possible. It would be a great damage to the general public to hold that contracts which in their nature are designed for the purpose of producing this *service* to the great body of automobile owners, are invalid. The automobile business in its very nature demands that this *service* be

given; and in this respect differs from the ordinary commercial business.

Respectfully submitted,

PLATT & PLATT,
McDOUGAL & McDOUGAL,
Attorneys for Plaintiff and Appellant.

ALFRED LUCKING,
L. B. ROBERTSON,
HARRISON G. PLATT,
Of Counsel.

